



# Capital Budget Preview

**Senate Ways and Means Committee Staff**  
**October 2002**



# There Are Three State Budgets



- ◆ **Operating Budget (\$43 Billion)** – general day-to-day operational expenses of state agencies, colleges and universities, public schools etc.
- ◆ **Transportation Budget (\$4.6 Billion)** – operating and capital costs of highways, ferries etc.
- ◆ **Capital Budget (\$2.6 Billion)** – construction and repair of state office buildings, public schools, colleges and universities, prisons, parks etc.



# What are the Sources of Money for the Capital Budget?



- ◆ **Borrowing** — the state periodically sells general obligation (GO) bonds. The debt service on these bonds is then repaid in the operating budget.
- ◆ **Trust Revenues** — state trust lands (granted by the federal government) provide timber, agriculture, commercial real estate and mineral revenue.
- ◆ **Other Funds** — there are numerous other small dedicated taxes and fees.



# **What Does the Capital Budget Pay For?**



## **The Construction and Repair of:**

- Public School Buildings
- College and University Buildings
- Prison Facilities
- Mental Health Institutions
- State Office Buildings
- Parks and Recreation Facilities
- Low Income Housing
- State and Local Museums
- Other Cultural Facilities

# What Limits the State from Incurring Too Much Debt?

**There are two debt limits and a super majority voting requirement:**

- A Constitutional 9% limit and a more restrictive Statutory 7% limit that prohibits the state from spending more than 7% of “general state revenues” for debt service. “General state revenues” are roughly defined as the general fund minus the state property tax.
- The Legislature must authorize the sale of bonds through passage of a separate “Bond Bill,” which requires a 60 percent majority vote in both the House and the Senate.

# Why were Some Capital Programs “Frozen” Last Session?

- ◆ In September and November of 2001, the overall general fund revenue forecast was reduced significantly, which also reduced “general state revenues” by almost \$800 million for the biennium.
- ◆ The revenue downturn caused the debt limit to be effectively reduced by \$175 million, putting the underlying appropriations in the 2001-03 Capital Budget at risk.
- ◆ The Governor responded by freezing a number of projects until a solution could be found.

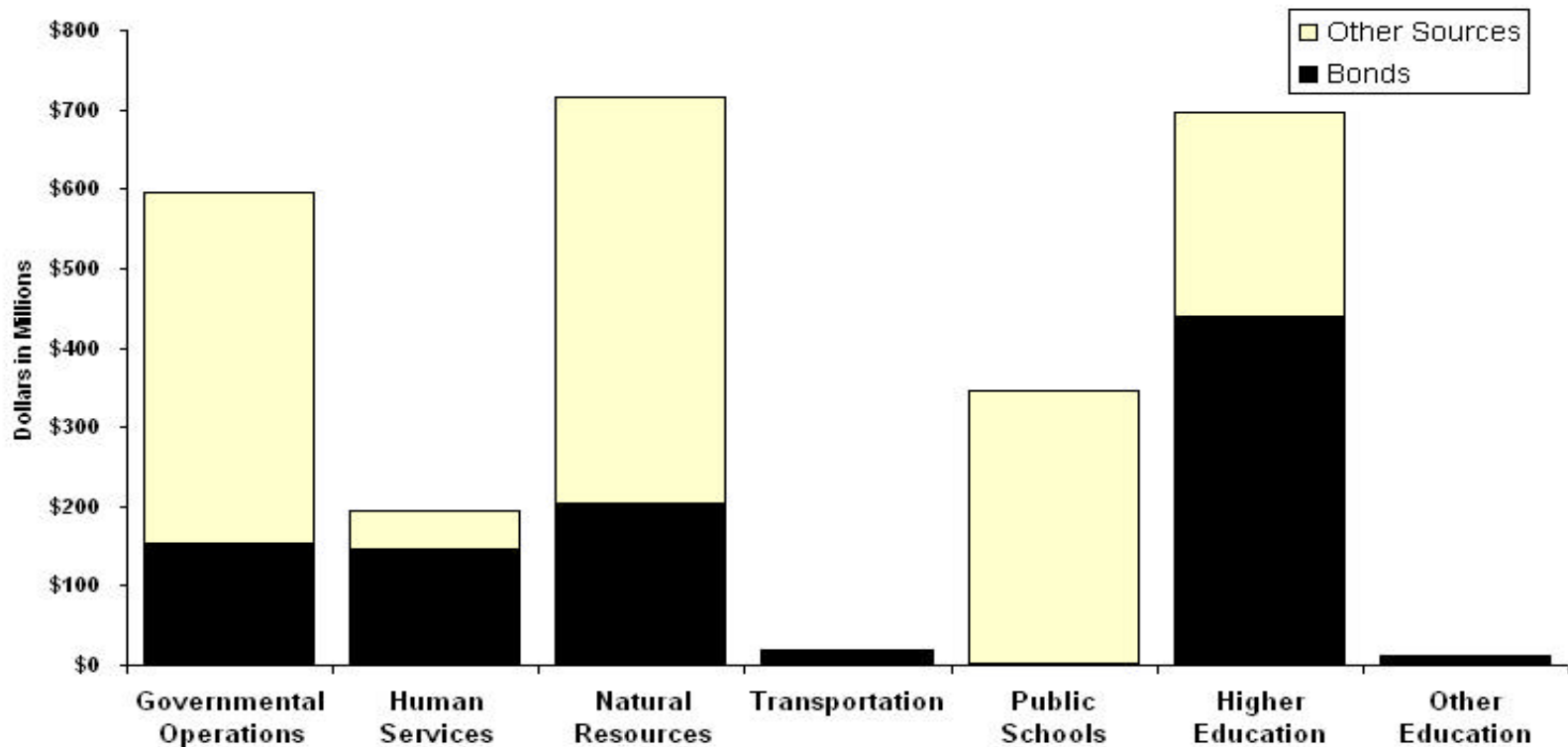


# The 2002 Legislative Response



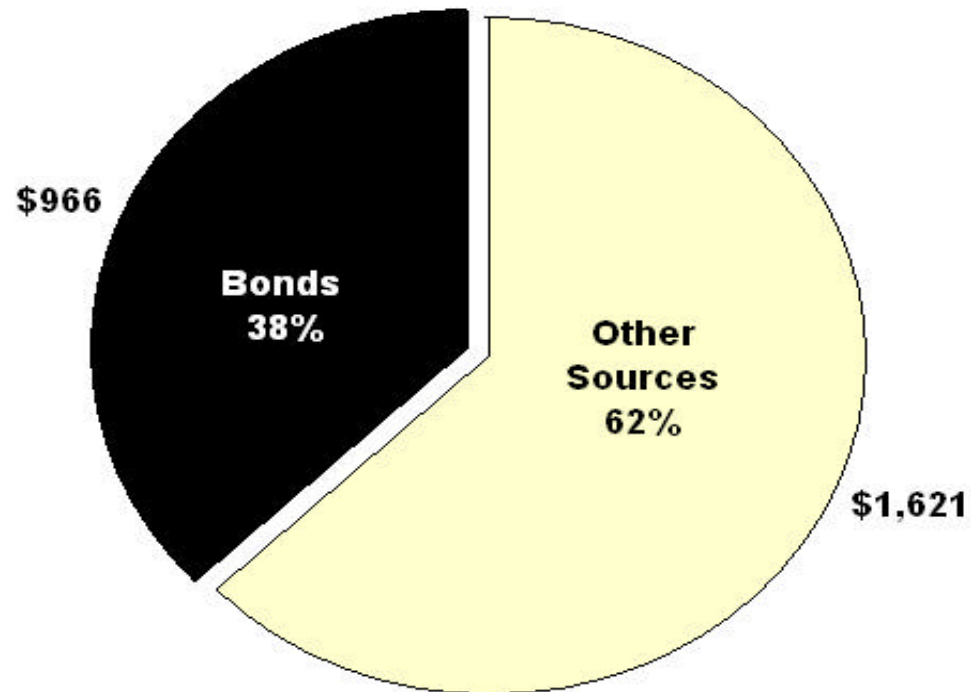
- ◆ Legislation was passed in the 2002 session which modified the definition of general state revenues to include a portion of the real estate excise tax (REET) that was not previously included.
- ◆ This allowed the Legislature to:
  - “Restart” all the projects in the underlying capital budget;
  - Appropriate \$17 million for supplemental items; and,
  - Spend \$109 million for a statewide “economic stimulus package.”

# Where Were the \$2.6 Billion in Capital Budget Dollars Spent in 2001-03?

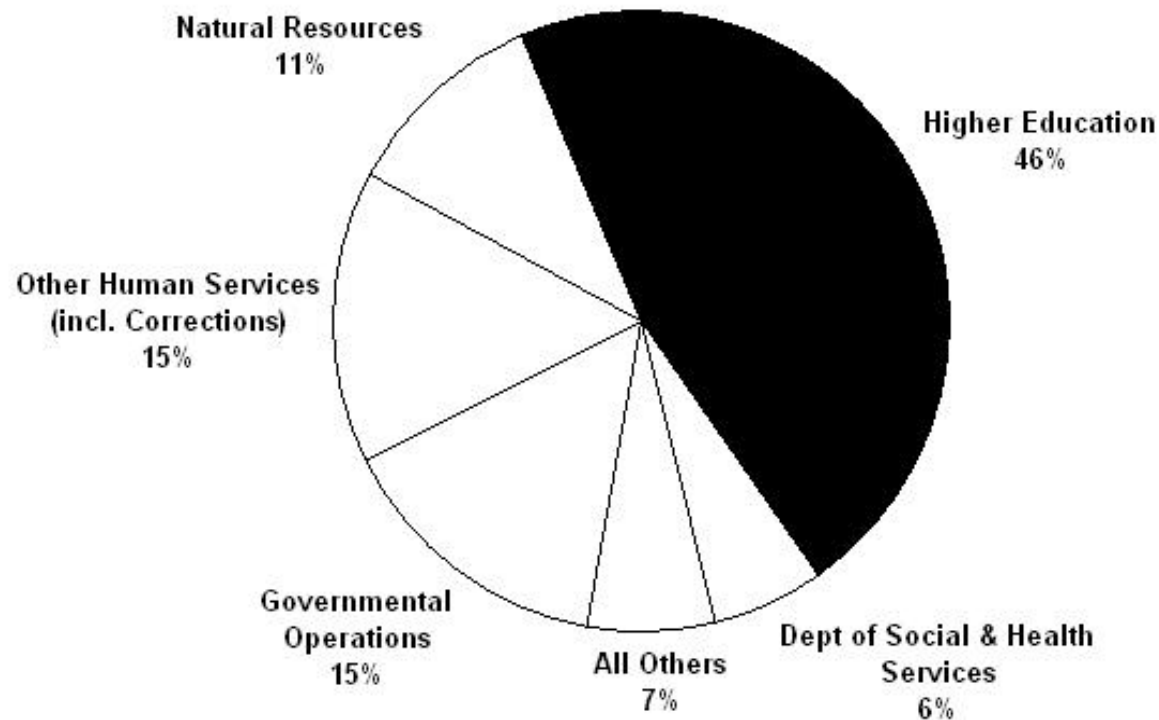




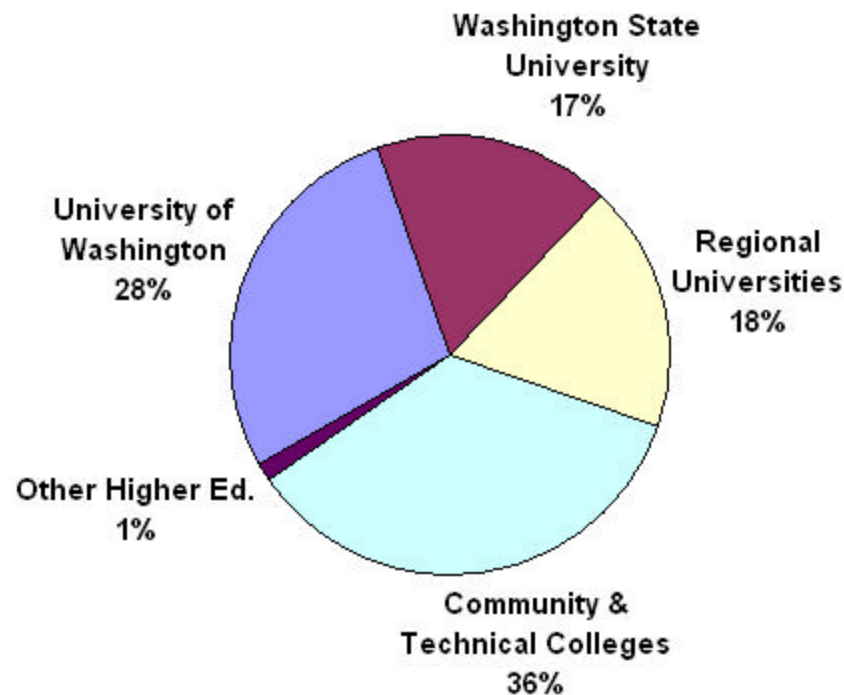
## Only 38% of the 2001-03 Capital Budget was Financed from Bond Proceeds



# Of the \$966 million from Bonds, Almost Half was Spent on Higher Education



# The University of Washington and Washington State University Receive About Half of the Amount that Typically Goes to Higher Education



Since 1989-91 Higher Ed has received on average 50% of all bond proceeds, on average distributed among the institutions as shown in the chart.



# Competitive Grant Programs



The state has a number of grant programs to assist non-profits, local governments, and others that provide cultural, environmental, and recreational facilities for public benefit.

Building for the Arts (\$4 M)

Community Service Facilities Program (\$4 M)

Washington Heritage Projects (\$4 M)

ALEA -Aquatic Lands Enhancement Program (\$5.5 M)

WWRP –WA Wildlife and Recreation Program (\$45 M)



## 2003-05 Capital Budget Outlook



- ◆ Subject to changes in revenue projections, interest rates and ongoing debt refinancing, the 2003-05 Capital Budget will likely have \$925 million to \$950 million in bond capacity.
- ◆ The total requests by the various agencies for capital budget bond funding is almost \$1.75 billion (exceeding the capacity by over \$800 million.)
- ◆ Of special interest this (and the next) biennium will be the need for new prison spending due to growing caseloads.